August 08, 2022

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001. Tel: 022 - 2272 1233 / 34 Fax: 022 - 2272 2131 / 1072/ 2037 / 2061 / 41 **Scrip Code:** 532345 **ISIN No.:** INE152B01027 **Re.:** Gati Limited	**National Stock Exchange of India Limited** Exchange Plaza, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 Tel: 022 - 2659 8235 / 36 / 452 Fax: 022 - 2659 8237/ 38 **Symbol :** GATI **ISIN No.:** INE152B01027 **Re.:** Gati Limited

Dear Sir/Ma'am,

Sub: Transcript of Q1 Earnings Conference Call – FY 2022-23.

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosures Requirements) Regulations, 2015 (the "Listing Regulations"), please find enclosed herewith the transcript of earnings conference call for the quarter ended June 30, 2022 held on Wednesday, August 03, 2022.

The aforesaid Transcript will also be uploaded on the website of the Company i.e. www.gati.com.

Kindly take the above on your record.

Thanking you,

Yours faithfully,
For **Gati Limited**

GATI LIMITED HYDERABAD

T.S. Maharani
Company Secretary & Compliance Officer
M. No.: F8069

Encl.: As above

GATI Limited
Q1 FY2023 Earnings Conference Call

August 03, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 23rd May 2022 will prevail

MANAGEMENT:	**MR. PIROJSHAW SARKARI – CHIEF EXECUTIVE OFFICER - GATI LIMITED** **MR. ANISH MATHEW – CHIEF FINANCIAL OFFICER – GATI LIMITED**
MODERATOR:	**MR. VIKRAM SURYAVANSHI – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Q1 FY2023 Earnings Conference Call of Gati Limited hosted by Phillip Capital India Private Limited.

This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital India Private Limited. Thank you and over to you, Sir!

Vikram Suryavanshi: Thank you Rutuja. Good afternoon and very warm welcome to everyone. On behalf of PhillipCapital, I welcome you all to Q1 FY2023 earnings conference call of Gati Limited. We are pleased to have with us management team represented by Mr. Pirojshaw Sarkari (Phil), CEO and Mr. Anish Mathew, CFO for Gati Limited. We will have opening comments from the management followed by question-and-answer session. Thank you and over to you Phil Sir!

Pirojshaw Sarkari: Thank you Vikram. Good afternoon and a very warm welcome to everyone on our quarter one FY2023 Earnings Conference Call. We have uploaded our results presentation on the stock exchanges and company's website and I hope everyone had an opportunity to go through the same. As mentioned along with me I have Mr. Anish Matthew, the Chief Financial Officer for Gati Limited as well as our investor relations team.

We started the new financial year on a good note with our revenues of our core express business increasing by 46% year-on-year and 13% quarter-on-quarter basis and we have seen improvement in our margins and profitability. The continuous efforts of infrastructure augmentation, integration of technology for efficient operations, realigning our systems and processes as per the requirements of the business and more over focus on customer delight have been the key pillars to this performance.

With this upbeat performance, we expect to further gather momentum-entering 2023 with an agenda of outpacing the industry growth rate.

On the industry front we believe that in India organized express logistics industry would be the fastest growing sub-segment in the overall logistic sector due to the following reasons. Increased demand for shorter transit time, specialized handling of cargo, very few capable national players who could manage such hub and spoke network and increasing e-commerce penetration.

There are different number pegged to the industry however our estimation suggests that the surface express industry would be in the range of ₹14000 to ₹15000 Crores and then there is another large PTL and organized trucking industry where express offerings are gaining traction whereby providing the growth momentum. We have been witnessing the shift from unorganized players to the organized players in the last couple of years.

The increasing trend in e-way bill which are currently at its highest monthly run rate of ₹ 7.5 Crores 63% of which is intrastate and balance is interstate are strong leading indicators of this shift. There has been constant need of more and more integration of technology aimed at providing ease of doing business and gaining customer delight.

We believe our Gati 2.0 is on track with the right strategies and customized services, which enabled us deeper penetration among the existing customers and addition of new customers. At Gati, we have been speaking of accelerating and enhancing our existing infrastructure to mange higher loads in the most efficient manner with hub modernization and increased automation. We have seen increased volumes and higher through put at our mega hub at Farukhnagar with more efficient and lean operations. Similarly, we are going to go live with our Mumbai hub in the current quarter and we believe that this will add up to the volumes for the coming years.

We are also planning similar mega hubs across the country and its plan to go live some in FY2023 and some in first half FY2024. Post this infrastructure amplification we will be able to cater to our customers with industry leading turnaround times with improved service levels to manage their logistical requirement in an efficient manner with higher OTIF deliveries.

We have been also speaking of the technological upgradation with Gems 2.0, which will create a digital bridge between the backend and frontend operations. We are happy to report that the project is going in full swing and is expected to be completed in the next 12 to 18 months. However, we will be implementing the same in various modules for which some have been implemented and some are in trial and pilot spaces and will be implemented from time-to-time basis This digital transition will help us to improve our efficiencies in front-end platforms like sales acceleration digital payment, data science and customer service with enhanced integration with backend for better lean and efficient operations in terms of network decision support, hub optimization, etc. As these modules are implemented, we have now access to real time data whereby our IT team are able to add analytics about route planning, optimal load planning improve turnaround times and reduce cooling period thereby increasing our ability to accelerate margins. We have been working on focusing in reducing cost per kg, more engagement with customers for wallet share addition, customer retention and new customer acquisition. Efficiently planning our infrastructure and hubs to manage flex and peak capacity thus increasing throughput and achieve scale.

Lastly, we have also been focusing on few other ongoing initiatives like pilot run for pickup and last mile delivery using electric vehicle, ease of doing business with Gati for customers from booking till delivery and embarked upon CSR activities for our contribution towards the society.

With this I would like to hand over the call to Mr. Anish Mathew our CFO for financial and operational highlights for quarter one FY2023. Over to you Anish.

Anish Mathew: Thank you Phil. Good afternoon everyone and a very warm welcome to our FY2023 earnings call. I will take you through the highlights of financial results for the first quarter of FY2023.

On revenue front, our consolidated revenues from operations for Q1 FY2023 stood at ₹431 Crores as compared to ₹299 Crores in Q1 FY2022 a growth of 44% year-on-year.

Our surface express business revenue increased from ₹229 Crores to ₹337 Crores in Q1 FY2023 up by 47% year-on-year basis. The tonnage for the segment grew by 55% year-on-year. Post our revised focus on air express business revenue stood at ₹18 Cr, 2.2 times higher than last year same quarter. The growth was largely driven by tonnage growth. SCM business declined by 10% year-on-year at ₹10 Crores. Revenue share from MSME and retail accounts stood at 42% in Q1 FY2023 in line with our strategy to increase the share of revenue from this category closer to 50% levels. Our total volumes in GKEPL stood at 2,78,598 metric tons for Q1 FY2023 up by 55% on year-on-year basis and at 8% on quarter-on-quarter basis.

We have been witnessing a steady increase in the ability to handle high volumes post our commitment of Farukhnagar mega hub and are optimistic of enhanced handling capacity and gear up to manage additional volumes post freight commitment of infrastructure pipeline.

On gross profit, consolidated gross profit for Q1 FY2023 stood at ₹103 Crores as compared to ₹70 Crores in Q1 FY2022 a growth of 47% on year-on-year basis. Gross profit of our core GKPL business for Q1 FY2023, stood at growth of 22% quarter-on-quarter thereby posting a sequential improvement of 170 basis points in gross margin to 27.7%. We have been minutely focusing on our cost and realigning our operations to best suit the business processes which intern will bring in efficiency.

We envisage higher operating leverage play out in the coming year and aim to improve gross margins to targeted levels of 32%. Our consolidated EBITDA including other income for Q1 FY2023 stood at ₹25 Crores up 12 times year-on-year. EBITDA margin for Q1 FY2023 was up by 500 basis points. With all our efforts dedicated towards increasing scale and efficiencies, we believe we will be able to increase the margins going forward.

PAT we have been able to turn the company PAT positive with Q1 FY2023 profit at ₹7 Crores as compared to a loss of ₹25 Crores in Q1 FY2022. As there has been, accelerated momentum in disposal of non-core assets the current quarter was impacted with an exceptional gain of ₹.4 Crores. We have been consistently providing other key comparative financial performance indicators in our investor presentation; one can refer that for more details.

With this, I would like to open the floor for question and answers.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Ankita Shah from Elara Capital. Please go ahead.

Ankita Shah: Thank you and congratulations on a good performance. Sir wanted to check on the client mix that continues to remain the same around 58% they are being contributed by key enterprise accounts so what are the efforts that we are taking on this side to change the mix and what is the progress on the same.

Pirojshaw Sarkari: Our mix stands at 58% and 42% right now 58% key accounts and major accounts and 42% SME and retail there are initiative that we have already started seeing to increase the SME and retail mix one of them being that we have now engaged a consultant who is come in and is going to help us redesign our franchise model which is existing today and increase the penetration into the tier two, tier three cities mainly where the retail business comes from and have more franchises that can get up this business. As you know at one point of time, a few years back Gati was the leader in the retail business over the years we have lost our leadership there but we want to regain that leadership. On the SME side we have engaged ourselves with the SME Chamber of Commerce in India in fact we were the lead sponsors of their seminars that was held in Bombay just last month and we are engaging with them as knowledge partners to the SMEs we strongly believe that this engagement will help us penetrate the SME segment in a big way.

Ankita Shah: And on the margin side what has helped the improvement on margins, I mean, other expenses has gone down anything that you want to highlight here.

Pirojshaw Sarkari: As you know gross margins in our business is a combination of yield weight as well as reduction of direct cost and I think as far as we are concerned for this quarter there was a very, very strong focus on yield and of course optimization of the network and a combination of these two have got us our gross margin and we continue to focus on both these.

Ankita Shah: And we remain on the target of 9% to 10% for this year margins.

Pirojshaw Sarkari: Yes, as we increase our gross margins and top line, we will leverage the cost as I had said we believe that we have reached a cost level below the gross margin, which will be now static for the next growth that we envisage in Gati.

Ankita Shah: And on the infrastructure launches it seems that with delayed Mumbai, Bangalore, Indore and Hyderabad launches by a quarter what has led to this delay.

Pirojshaw Sarkari: The Bombay launch would be in September this year it the delay of course as you know is twofold one is monsoon that has really hit Bombay and we got delayed in the construction part but more so it also is a very unorganized sector in Bhiwandi so some surprises keep coming up however we are now on track and I am sure we will start our third quarter operations from the super hub. Also Bangalore we had some issues with the landowners because as you know we are leasing the land over there but all that is settled and I am sure that 1st January we should be able to start our operations in Bangalore. Having said that some of them we have preponed to so for example we were luckily in Nagpur we found the ready facility so we will be starting our Nagpur new hub again by September and we also did a similar thing and are happy where we were lucky to find a new hub in Guhawati which we will be starting sometime in August and September. So we keep looking out simultaneously if there is something that we find which is ready to use of course it will never be in our super hubs our super hubs will always be built out but in the other cities we keep an eye on something that is ready to use and we go in and moving there.

Ankita Shah: And lastly if any update on the reorganization if at all there is any update that is helpful. That is it. Thank you.

Pirojshaw Sarkari: The reorganization as far as Gati is concerned is complete and when we say reorganization I mean the reorganization of the organizational people so I think we have completed the reorganization we are now well structured both on the sales and operation side including the top management of the organization. So I would claim that we have completed the reorganization.

Ankita Shah: Or may I meant restructuring that is something that you were saying last time that we were acquiring along with our partner KWE and along with the parent anything in that sense I meant that.

Pirojshaw Sarkari: So that basically is right now the status is the same that we had given to the stock exchange the last time stating that we are kind of considering some restructuring but there is nothing that I can talk about right now.

Ankita Shah: That is it from my side thank you and all the best.

Moderator: Thank you. The next question is from the line of Alok Deora from Motilal Oswal. Please go ahead.

Alok Deora: Good evening Sir and congratulations on decent numbers. Just wanted to understand in this quarter we have seen mainly a 50% plus growth in volumes and our revenues also growing by similar kind of a number so there has been no realization growth is that currently because of some change in the mix of shipment handled any color on that.

Pirojshaw Sarkari: Thank you for the question. I just respond that to the earlier questions stating that it is a combination of the yield that has brought about the growth on the revenue and of course, this combination coupled with optimization in cost has brought about a growth in the gross margins. As far as the mix is concerned if you are talking about the vertical mix we have not yet seen success on the mix change because we are growing our KEA software however, the focus is definitely to grow the SME and retail. Having said that I think our sales team has done a phenomenal job in increasing the KEA EBIT for our self.

Alok Deora: And also just wanted to get a sense on the how the volumes have shift up specifically in June and July because some indicators are suggesting that while April and May were pretty strong June and July was slightly slow any views on that.

Pirojshaw Sarkari: No not really, so for us there has been an increasing trend month after month, we have not seen any slowdown really happening yet due to certain market condition in the month of May there was I would say an increase which was more than what it would have been under normal circumstances this has to do with competitors etc., but otherwise we have not seen a change.

Alok Deora: So is it possible to just quantify that out of our revenues how much benefit we could have got because of that or which could be more of a one-time or a short-term kind of a gain and that number might not sustain in subsequent quarters.

Pirojshaw Sarkari: That number was not so big that it will make a difference in subsequent quarters we will continue our strategy in the subsequent quarters.

Alok Deora: Sir just last question, so are we sticking to the numbers guidance for FY2023 in terms of margins and outlook on the growth.

Pirojshaw Sarkari: Yes, very much so I had given an indication of the EBITDA margins been 9% odd so that we are sticking to that number.

Alok Deora: Got it. Thank you and all the best Sir, that is all from my side.

Moderator: Thank you. The next question is from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

Pradyumna Choudhary: Hello Sir thanks for the opportunity. So first I just wanted to understand what exactly like part of what GATI does actually make the difference in terms of competition not being able to copy it so easily because we have seen that there has been other players are taking the team interest in the surface B2B express industry and second more on the 3PL side I know nothing has been announced as of now but if we plan on entering in the future I just wanted to understand from your perspective the return profile in the 3PL business versus the return profile in the B2B express segment.

Pirojshaw Sarkari: If I were to answer your first question I think the most important element in a B2B business is the network that means the reach that a company has whether it is to pickup the shipments or to deliver the shipments and I think Gati over the last 30 years takes pride in having developed one of the deepest and largest network in the B2B business in India and the second I think more important or I would say second most important is the trust that Gati creates with their customers I think that is very important in an unorganized industry creating the trust factor that the customer will be told the truth irrespective of the service level so even when you are reaching on time everything is good but if you are not reaching on time or if you have damaged some shipment how upfront and trust worthy are you as a service provider to the end customer is extremely important in today's day and age. I had said this before, and I will continue to say this I do not know why there is a perception that many players are entering the B2B express logistics business I have not seen a sixth national player beyond the five players that has come into the B2B business.

Pradyumna Choudhary: Not any entering the business more of like going more I would say aggressive on that side like focusing more on growing that for example a player which was majorly a B2B air express there is now growing faster in the B2B surface express business and similarly we have a PE funded player which is listed now and is under a drawdown of like it had the deeper pocket to actually go aggressive there so in that sense what in next.

Pirojshaw Sarkari: No correct, so that is what I am saying there are five clear national payers in the B2B business and the two that you had spoken are within those sides. Unless you have a good be it large network, you are not go and to be able to be playing in the B2B business and it takes a lot of time and money to develop a network, which is reliable and dependable in a country like India especially in the surface network region. Coming to the second question if I followed your question correctly you asked whether Gati is going to be in the contract logistics was that your question what exactly was your question sorry could you repeat it.

Pradyumna Choudhary: Sir it was more to do with in case Gati enters the contract logistics business in the future. So, I just wanted to understand the kind of return profile in the contract logistics business vis-à-vis the current B2B express business that we are doing.

Pirojshaw Sarkari: So as you know the contract logistics business basically had two elements to it one is warehousing the other is distribution a pure warehousing contract logistics business would give a profile of anywhere between 10% to 15% EBITDA margin and once they get into distribution that would go down to somewhere between 8% to 10% from a pure contract logistics business. For Gati we still have a small portion of contract logistics within us which we call the supply chain business in our balance as such I have been now in Gati for a year and I have been concentrating on making sure that our express logistics which is basically the bread and butter for Gati comes back at their service levels that are expected by the customers once that happens we will definitely be looking at getting into contract logistics in Gati because I strongly believe that if you have to be a fulfillment player you have to store and distribute the finished goods.

Pradyumna Choudhary: Understood Sir and like this would also not considering the world cargos contract I am not saying whether it will happen or not but even we are open to that also Allcargo contract logistics business taking that.

Pirojshaw Sarkari: Yes, that is always explored.

Pradyumna Choudhary: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Nidhi Babaria from Envision Capital. Please go ahead.

Nidhi Babaria: Hi! Sir, thank you for taking my question I just wanted to ask on gross margin side even on a Q-on-Q basis we have increased our gross margins I know it is a combination of both the volume and the value I just wanted to know is there any like despite having an extremely higher diesel cost in this quarter like which was almost ₹100 plus how would we able to manage in this specific quarter and going ahead what would be our target for FY2023 and 2024.

Pirojshaw Sarkari: Sorry I did not get your question what cost you said ₹100

Nidhi Babaria: Diesel prices in this quarter were above ₹100 for the entire quarter, which was highest ever now it has come down but despite having the highest diesel cost how are we able to manage this type of, we were able to improve our gross margins on a Q-o-Q basis.

Pirojshaw Sarkari: This is before a large proportion of our customers are on BPH which means that they are on a diesel formula when diesel increases that portion of the rate goes up and when diesel goes down that portion of the rate goes down and I think the sales team has done a fantastic job of making sure that the proportion of BPH that we now have with our customers which is automatic more than covers our main direct cost which is the line haul cost that is the trucking cost that we have because that is where from a expense side the BPH applies to us. So that way our contract cover that BPH for us and therefore that should not have any negative impact and neither will it have a positive impact when the fuel goes down. Therefore, that has been well covered by our sales.

Nidhi Babaria: And what portion would be direct cost to our total revenues what is the revenue rough breakup.

Pirojshaw Sarkari: Our network cost to through revenues would be about 45%.

Nidhi Babaria: And going ahead what type of gross margins do we target for 2023 and 2024.

Pirojshaw Sarkari: A good gross margin for 2023 which I have said before would be near 29% and moving forward we increase that to 32%.

Nidhi Babaria: Thank you.

Moderator: Thank you. The next question is from the line of Depesh from Equirus Securities. Please go ahead.

Depesh: Sir on your tonnage growth in the surface express business that seems better than the industry and also the competition so just wanted your thoughts on the same that if you have gained any market share and is it sustainable.

Pirojshaw Sarkari: I think one of the things that I have always said before also is that the good thing about Gati is that every single vertical of ours we have at least 7 to 8 of the top ten customers of that vertical as customers for ourselves. Our share of business in those customers was low when I came into Gati what we have managed to do is we have managed to increase the penetration with the same customers and get a much larger share from them. These are customer who had seen Gati in the Gray days also so they had that confidence in Gati but in over the last few years service had deteriorated and therefore they had pulled out a large share of the business from Gati we see that confidence coming back and therefore tonnage coming back to us.

Depesh: Is the share of business that you won was mainly because of the integration issue is one of the other mergers that happened is it because of that.

Pirojshaw Sarkari: I think it was more about giving back the service that they were used to with Gati earlier.

Depesh: Secondly, on the employee expense I think that has increased 27% Y-o-Y and quarter on quarter I see that, it has increased to around 9%, 10% so any one off share and do you think this number is sustainable or this will further increase.

Pirojshaw Sarkari: So the quarter-on-quarter increase is basically because of the annual increment that we have suggest to our staff which we do in the month of April the Y-o-Y of course was basically reorganizing and bringing in good talent into the organization which I have told even in my last quarter that now we have completed the talent acquisition that we had set out to this.

Depesh: Got it Sir, this is more of a sustainable number that you see for the remaining quarter.

Pirojshaw Sarkari: Yes, absolutely.

Depesh: And lastly Sir the asset that got shared on the balance sheet right the land and buildings that have been completely sold off and what is the update on the fuel station.

Pirojshaw Sarkari: I will ask Anish to answer that question.

Anish Mathew: Yes, so the total asset held for sale is approximately around ₹140 Crores so we have a two year visibility for almost like 55% of the total AHFS which is approximately ₹83 Crores we have realized part and part money will come in so that is why in the P&L account you said exceptional gains in some of the properties and that we have got gain in some properties now we have to kind of write it down because realization is much lower than actually what is carrying the value which is carrying in the focus. With respect to the fuel station yes there is a progress which is there so we just awaiting the approval from the authorities so once the approval comes in and I think we should be in a position to kind of sell that fuel station. So I think Q2, Q3 we just need to wait and see and we are hopeful we would be able to kind of get this sale materialize in this financial year at least.

Pirojshaw Sarkari: Just to clarify you said ₹140 Crores was the asset held for sale out of which ₹83 Crores has been realized and remaining will be still in that range?

Anish Mathew: Yes, ₹83 Crores full we have not realized we have got a clear visibility where we identified the buyer we have entered in the sale it remain some got disposal some in the process of selling now where we have ended in the AOS our agreement for sales so most of the money would get realized in Q2.

Depesh: Got it Sir thank you and all the best.

Moderator: Thank you. The next question is from the line of Pranay Roop Chatterjee from Burman Capital. Please go ahead.

Pranay Roop Chatterjee: Just couple of questions there was an interesting slide on your presentation which essentially was talking about which is slide 18 old hub versus the new hub in Farukhnagar and when you have mentioned whole lot of features that you have introduced so I just wanted to understand when you have replaced these three warehouses which are 84,000 square feet into one ware house of about 1.13 lakhs can you share any metrics or any quantitative guidance on what are the improvements because quantitatively we understand from channel checks and industry that service quality has improved in North India but could you provide any metrics like that percentage turnaround or any specific line how much revenue growth that you have seen it will help us understand in the future hub expansions what kind of gains we can expect.

Pirojshaw Sarkari: To give direct attribution of revenue growth for one hub becomes extremely difficult because it is a networked business what does really tend to happen is that customers who were giving us a lesser share for North India have definitely started giving us more share of their business for North India because they now believe that our service has improved in North India because of the super hub. What has really helped us is the 89 docks that we have in Farukhnagar so when we have three different hubs basically those three hubs put together had about 40 odd docks and we could only lower unload truck and that to partially from one hub to the other hub till we got that so the time for loading and unloading was exponentially higher than what it is now. So for our own business partners who are our trucking partners they all love it when their trucks are rolling on the road with goods rather than tipping at the hub to get loaded or unloaded because they can then earn more out of it and if they earn more we also, our cost optimization takes place. So I do not know how to give you an absolute number by one hub but definitely the turnaround time of the truck has reduced and it has reduced substantially for us, also the efficiency of being able to load and not miss out something because it was lying in three different places earlier now all in one systemized hub is far more better than what it was earlier so that is all I can say right now.

Pranay Roop Chatterjee: And most of my number related questions have been answered so I will just shoot again a broad question, which might appear weak, but I will go for it anyway. On a scale of one to ten one of the most important factors of your transformation journey is essentially improving customers delivery quality if on a scale of one to ten, ten being what GKEPL has more than its sales in the early part of the decades where do you think we have reached on that scale today compared to where we worked one year back.

Pirojshaw Sarkari: If you were to ask me where we were one year back I would have said we are now five on ten today we would be on 7 or 7.5.

Pranay Roop Chatterjee: And lastly the large part of the improvement would have happened in north India and we would expect more improvement in the rest of the India as customer so is that a fair statement.

Pirojshaw Sarkari: No that is not a fair statement the improvement has happened all over India it is not just that you increase or consolidate hub and your entire India service improves there are lot of elements that went into service improvement all over the country.

Pranay Roop Chatterjee: Thanks, that is it from my side.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Sir, my question is you had mentioned that there were some constraints in terms of handling peak volumes at some of the locations and the new hub ~~in mark~~ will help the new growth constraint. So if we were to grow at double digit volume from the current quarter case do we see any constraint or is it contingent of our new hub coming in or we think that we can grow in double digit volume even from this quarter base we have entire hub all the hubs being rolled out.

Pirojshaw Sarkari: If I were to answer this question in two ways, one is if I remain status quo I cannot grow double digit. The second answer is if I wait for the hubs to come I will miss out an opportunity so what we have done especially now because we know that we are approaching season time as you know season starts end of August and goes up to November especially in our business what we have done is we have enhanced capacity by temporarily leasing excess space wherever we found that we had choked up last Diwali. This will make sure that we do not chock up and our service level remains the same so we have already done that or are in the process of doing that as we speak right now. The enhanced capacity temporarily for the season we do not need to do that once the new hub in Bombay comes up once the new hub in Nagpur comes up and once the new hub in Guwahati comes up in those places but in the rest of India we will have to continue to have temporary space till the new infrastructure they have built and that was one of the issues that Gati was facing earlier and now we have learned to our experience and we have already put that in place.

Dhwanil Desai: Sir second question is on gross margin I think if I remember earlier calls and conversations we have told that we kind of sacrifice some gross margin in order to improve the customer responsiveness and for this level and I think we are aiming to go to 29%, 30% margin by end of the year. So what are the levers to moving from 23% to 29%. Is it the higher capacity utilization newer hubs or something more.

Pirojshaw Sarkari: First of all, when you talk about gross margin you must talk about my core business gross margin which is the express logistic business in which we are at 27.7% gross margin when you see the consolidated gross margin that is because of our fuel pump business that comes in there so we are looking at from 27.7% to take it to 29% so it is not from the other figure that you spoke about. Having said that of course there are many levers that make us increase our gross margin and we will continue to build on all the three levers of yield cost optimization and increase in volume and we strongly believe that we are on track to hit that gross margin.

Dhwanil Desai: And last question is on the franchise part I think we have retail and SME segment that you want to take I think franchise is an important part of getting the that segment so can you help us understand what is the current spend for franchise for us and how do we want to increase in next three years.

Pirojshaw Sarkari: Today as we sit here and the number may not be exact but we have around 250 odd franchises or maybe even slightly more but what we are looking at doing it is a twofold exercise one is to revamp the franchise process itself and the second is we are looking at increasing a 100 more franchises in the next 12 months.

Dhwanil Desai: Got it thanks Sir that is it.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Great set of number congratulations for that. Sir just one clarity I wanted to understand you mentioned in terms of increasing the EBITDA margin and EBITDA absolute from here is my understanding correct that any incremental revenue adjusted for variable cost that straight goes to EBITDA are we now the fixed cost are in place and then incrementally all goes to the bottom-line is my understanding correct.

Pirojshaw Sarkari: I would say almost correct as we build out new hubs there will be some incremental lease cost that will come in but otherwise yes you are correct.

Dhaval Shah: And secondly, Sir you mentioned about winning back the business from your old customers so the loss of business would be for those organized players the large five organized players or it would be from the unorganized side.

Pirojshaw Sarkari: I do not understand loss of business form organized players.

Dhaval Shah: So the business which you won back from the customer so your competitor would have lost that business.

Pirojshaw Sarkari: Yes, I got it now. No definitely, it is from the organized players because those are customers who would work only with organized players, the unorganized players are all the new businesses that we are winning.

Dhaval Shah: And where do you see the best visibility in terms of growth in terms of the end industry.

Pirojshaw Sarkari: This is always a catch 2022, the key accounts basically have a lot of volumes so when I win even 10% of our key accounts volume I have to win at least 10 SME customers and a 100 retail customers to get that kind of volume so while our focus definitely is to increase the SME and retail faster but there is no directive in the organization to say stop having key accounts. So key accounts is a separate team SME is a separate team and retail is a third team we have three different sales team and while we have not said to our key accounts team please stop or reduce the business because that is not the intent we as an organization are focusing our efforts on how we can taken or passing the effort on increasing SME and retail business through various modules as I responded to one of the earlier gentlemen in the question.

Dhaval Shah: In terms of profitability, would there be a large variation between the retail the SME and the key accounts.

Pirojshaw Sarkari: In terms of yield definitely there would be a large variation profitability again depend from customer to customer some customers give us then flow it some customer give us volume metric load and each of these combinations determined the end profitability for us that from a simple yield perspective definite a very large difference.

Dhaval Shah: And Sir last question will be in our journey of growth over next three to five-year period how vital is air express as a division for you.

Pirojshaw Sarkari: Air express becomes extremely vital and I explained this to my own internal team many a time that for every single shipment that we pickup in air express it gives us almost six times the yield of our surface express shipment. So we should not go by shear tonnage of air express that we carry because I would multiply that by six and say we are so large in the entire express business. So yes to answer your question it is extremely important for us our first benchmark is to hit the ₹10 Crores mark per month in air express as you have seen we have consistently now hit the ₹6 Crores mark and we will definitely be increasing that quarter after quarter.

Dhaval Shah: So do you see any difficulty in getting the space at the belly cargo at the time which you want like the time slot because the way we understand the morning slots are very expensive and then as the day passes the rates are different so how would you look at it in terms of managing profitability given we will be using the belly cargo.

Pirojshaw Sarkari: There are various combinations available to us because different airlines have different capacities different rates and different service levels it is literally an algorithm that one has to run to determine if I have this cargo today which airline should I put it on and at what time I should put it on to get me the best service and the best profitability there is also a devil over here called the co-loader and sometimes when you do not have adequate tonnage we also use the co-loader. The combination of these gets to your service as well as profitability.

Dhaval Shah: And Sir in the quarter reported in the June quarter we would have seen the impact of steep increase in ATF prices on your EBITDA so do you think that would normalize going forward now the prices starting with correcting.

Pirojshaw Sarkari: So one of the good things in the air business, all air customers are 100% link to fuel unlike the surface business where I cannot say all are link to fuel and therefore for us as the fuel price increases our revenue increases in the same proportion and if it reduces so that the revenue in the same proportion. The volatility in air turbine fuel prices is far more than and basically one cannot even predict although you and I read the same economic times everyday I think it is very difficult for us to predict what is going to happen with some lady going to Taiwan and some gentlemen going to Russia right.

Dhaval Shah: Yes, great Sir thank you very much for answering the questions and good luck.

Moderator: Thank you. The next question is from the line of Ronald Siyoni from Sharekhan. Please go ahead.

Ronald Siyoni: Good afternoon Sir Congratulations on good set of results. Sir I wanted to understand this gross margins little bit because as you said that we have been winning customers back and mostly key accounts so but the mix has not change ours is the last year or sequentially also if you are winning those accounts also so yields would be little bit lower so maybe margins a bit lower so both things are not adding up with respect to the increase in gross margins you are having. Unless and until you have shutdowns some routes for those accounts and restructured replaced with another.

Pirojshaw Sarkari: Maybe I am repeating myself but gross margin is a combination of both yield volume and the cost optimization what we have done over the last one year as we have first concentrated on increasing and bettering the service levels for our customers whenever the customer comes up for renewal we have been successful in increasing our yields even if it is the key account which we are now confident because our service has gone up and therefore we have been able to increase the yields in our key accounts also. At the same time there is huge optimization of network cost and pickup and delivery cost that is a continuous process and that has happened and continues to happen and therefore the gross margin percentage has gone up to 27.7% this will continue yes you are right in spite of the mix remaining almost the same we have been able to increase our gross margins and we are very sure that as we focus on the SME and retail segment more and more this mix will also change.

Ronald Siyoni: Okay Sir thank you very much.

Moderator: Thank you. This was the last question for today. I now hand the conference over to the management for closing comments.

Pirojshaw Sarkari: I will take this opportunity to thank every one of you for joining the call we will keep updating the investor community on regular basis for incremental updates on your company. I hope we have been able to address all your queries for any further information kindly get in touch with us our strategic growth advisors our investor relations advisors. Thank you once again and stay safe. Thank you all.

Moderator: Thank you. On behalf of Philip capital India Private Limited, that concludes this conference call. Thank you for joining you and us may now disconnect your lines.